

CHASSELL TOWNSHIP SCHOOLS
CHASSELL, MICHIGAN

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Chassell Township Schools
Chassell, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chassell Township Schools as of and for the year then ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chassell Township Schools's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Chassell Township Schools as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 7 through 12 and 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Chassell Township Schools' basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

July 27, 2005



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Chassell Township Schools
Chassell, Michigan

We have audited the general purpose financial statements of Chassell Township Schools as of and for the year ended June 30, 2005, and have issued our report thereon dated July 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Chassell Township Schools' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Chassell Township Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the School District's Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

July 27, 2005

Chassell Township Schools
Management's Discussion and Analysis
June 30, 2005

This section of Chassell Township Schools annual financial report presents our discussion and analysis of the School Districts financial performance during the year ended June 30, 2005. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

Financial Highlights

The District's general fund ended the year within budget. Total expenses for the general fund totaled \$2,505,027 with revenue totaling \$2,366,424. The year end fund balance for the general fund was \$1,426,746, \$138,603 less than last year.

The debt retirement fund was able to reduce the accrued interest on the School Bond Loan Fund in the amount of \$65,000.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Overview of the Financial Statements - Continued

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Retirement Funds, Capital Project Fund, School Food Service Fund, and Athletic Fund.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Retirement Fund meet this requirement

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management's Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.
- Other supplementary information provides detailed information about the General, Capital Projects, School Food Service, and Athletic Funds.

Chassell Township Schools
Management's Discussion and Analysis
June 30, 2005

Summary of Net Assets

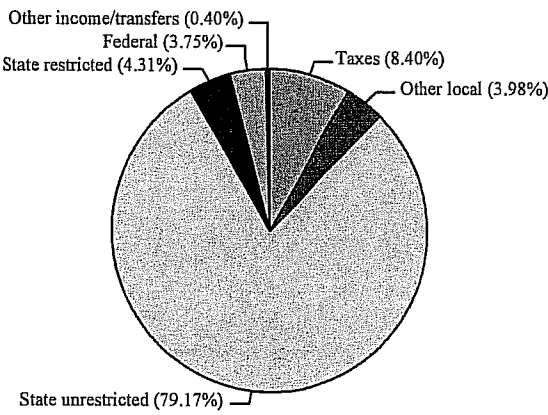
	2005	2004
Assets		
Current and other assets	\$ 1,760,067	\$ 1,800,458
Restricted investments	42,505	53,295
Capital assets - Net of accumulated depreciation	2,832,521	2,948,835
Total Assets	<u>\$ 4,635,093</u>	<u>\$ 4,802,588</u>
Liabilities		
Current liabilities	\$ 689,016	\$ 666,670
Long-term liabilities	2,866,553	3,003,609
Total Liabilities	<u>3,555,569</u>	<u>3,670,279</u>
Net Assets		
Invested in property and equipment - net of related debt	(482,621)	(535,886)
Restricted	61,543	67,324
Unrestricted	1,500,602	1,600,871
Total net assets	<u>1,079,524</u>	<u>1,132,309</u>
Total Liabilities and Net Assets	<u>\$ 4,635,093</u>	<u>\$ 4,802,588</u>

Results of Operations in Governmental Activities

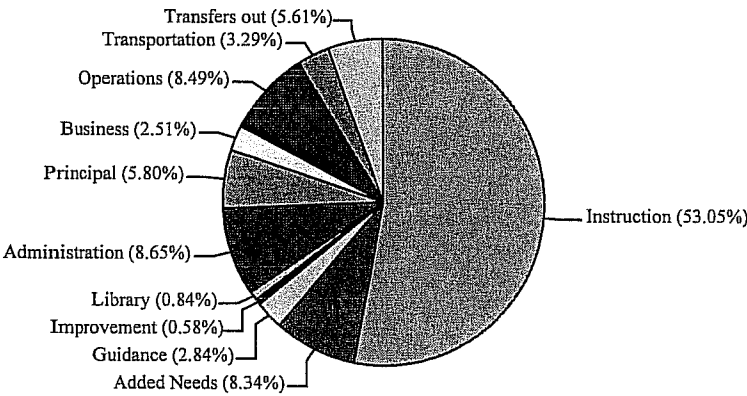
	2005	2004
Program Revenue:		
Charges for services	\$ 133,256	\$ 136,713
Grants and contributions	264,101	251,454
General Revenue:		
Property taxes	483,877	439,114
State foundation allowance	1,873,489	1,893,126
Other	32,425	17,883
Total Revenue	<u>2,787,148</u>	<u>2,738,290</u>
Functions/Program Expenses		
Instruction	1,646,601	1,586,367
Support services	833,872	815,491
Capital projects	14,689	8,265
School food services	147,167	146,832
Athletics	74,957	72,069
Interest on long-term debt	122,043	484,326
Other debt	604	95,038
Total Expenses	<u>2,839,933</u>	<u>3,208,388</u>
Change in Net Assets	(52,785)	(470,098)
Net Assets - Beginning	1,132,309	1,602,407
Net Assets - Ending	<u>\$ 1,079,524</u>	<u>\$ 1,132,309</u>

The following charts highlight the District's General Fund activities:

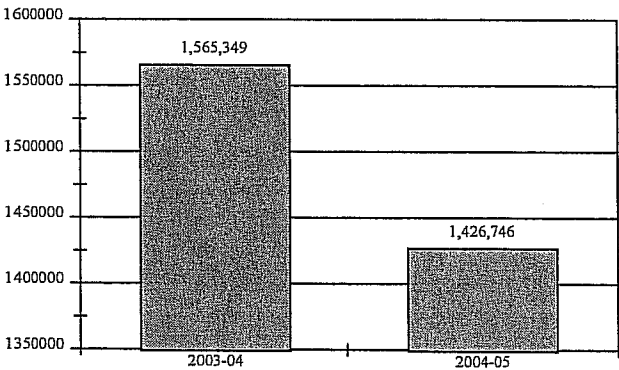
2004-05 Revenues



2004-05 Expenditures



Fund Balance Comparison



Chassell Township Schools
Management's Discussion and Analysis
June 30, 2005

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	Current Year	Prior Year	Change
General Fund:			
Revenues/Transfers	\$ 2,366,424	\$ 2,340,799	\$ 25,625
Expenditures/Transfers	\$ 2,505,027	\$ 2,416,893	\$ 88,134
Fund Balance	\$ 1,426,746	\$ 1,565,349	\$ (138,603)
Debt Retirement Fund:			
Revenues/Transfers	\$ 286,445	\$ 273,812	\$ 12,633
Expenditures/Transfers	\$ 292,226	\$ 262,900	\$ 29,326
Fund Balance	\$ 61,543	\$ 67,324	\$ (5,781)
Capital Projects Fund:			
Revenues/Transfers	\$ 50,966	\$ 50,367	\$ 599
Expenditures/Transfers	\$ 14,689	\$ 8,265	\$ 6,424
Fund Balance	\$ 82,152	\$ 45,875	\$ 36,277
School Food Service Fund:			
Revenues/Transfers	\$ 154,343	\$ 146,832	\$ 7,511
Expenditures/Transfers	\$ 154,343	\$ 146,832	\$ 7,511
Fund Balance	\$ 0	\$ 0	\$ 0
Athletic Fund:			
Revenues/Transfers	\$ 69,608	\$ 66,721	\$ 2,887
Expenditures/Transfers	\$ 69,608	\$ 66,721	\$ 2,887
Fund Balance	\$ 0	\$ 0	\$ 0

General Fund - The main increase in revenue is related to the tax revenue, in the amount of \$32,382.

Debt Retirement Fund - The Debt Retirement Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District. This is the second year the District did not have to borrow from the School Bond Loan Fund in order to make the interest and principal payments.

Capital Projects Fund - The Capital Projects Fund is used for the purpose of setting aside money from the General Fund for future capital purchases, e.g. a bus purchase every other year, building repairs/improvements, and technology updates. By doing this, when a major capital purchase is needed, all the money does not have to come out of the General Fund at one time.

School Food Service Fund - The Food Service program for the District has required operating transfers from the General Fund in recent years. Transfers from General Fund for June 30, 2005 and 2004, was \$16,305 and \$3,568 respectively.

Athletic Fund - The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects revenues in the form of gate receipts. Transfers from General Fund for June 30, 2005 and 2004, was \$56,739 and \$58,985 respectively. These transfers do not reflect any transportation expenditures.

Chassell Township Schools
Management's Discussion and Analysis
June 30, 2005

Changes to Budget and Comparison to Actual Results

The original budget is required to be adopted before the beginning of the fiscal year by State law. For the fiscal year ended June 30, 2005, the original budget was adopted on June 14, 2005. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances, therefore the District amended the budget twice during the fiscal year. There were no significant variances for the fiscal year ended June 30, 2005 in the General Fund.

Capital Assets and Debt Administration

Capital Assets: The District's net investment in capital assets increased by \$23,130 during the fiscal year. The additions were two copiers and the School Food Service's computer meal program. No debt was issued for these additions.

Additional information on the District's capital assets can be found on page 24 of this report.

Long-term Debt: At the end of the current fiscal year, the District's total debt was \$2,993,257. This total amount is backed by the full faith and credit of the District. The District's total debt was decreased by \$135,000 during the fiscal year.

Additional information on the District's long-term debt can be found on page 25 of this report.

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

Our elected officials and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$6,875 for the 2005-06 school year. This represents an increase of \$175, the first in three years.

Approximately 80 percent of total General Fund revenues is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Chassell Township Schools.

CHASSELL TOWNSHIP SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 455,262
Investments	826,452
Taxes receivable	45,337
Accounts receivable	17,959
Inventory	5,482
Due from other governmental units	409,575
TOTAL CURRENT ASSETS	<u>1,760,067</u>
NON-CURRENT ASSETS:	
Restricted cash	42,505
Capital assets	4,321,573
Less: Accumulated depreciation	<u>(1,489,052)</u>
TOTAL NON-CURRENT ASSETS	<u>2,875,026</u>
TOTAL ASSETS	<u>\$ 4,635,093</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 34,641
Accrued expenses	190,210
Accrued interest	321,885
Deferred revenue	7,626
Bonds payable within one year	135,000
TOTAL CURRENT LIABILITIES	<u>689,362</u>
NON-CURRENT LIABILITIES:	
Bonds payable, due in more than one year	2,080,000
Compensated absences	8,296
School Bond Loan Fund payable	<u>778,257</u>
TOTAL NON-CURRENT LIABILITIES	<u>2,866,553</u>
TOTAL LIABILITIES	<u>3,555,915</u>
NET ASSETS:	
Invested in capital assets, net of related debt	(482,621)
Restricted for debt service	61,543
Unreserved	<u>1,500,256</u>
TOTAL NET ASSETS	<u>1,079,178</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,635,093</u>

The accompanying notes to financial statements are an integral part of this statement.

CHASSELL TOWNSHIP SCHOOLS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

FUNCTIONS/PROGRAMS	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Government Activities:				
Instruction and instructional support	\$ 1,646,947	\$ 55,768	\$ 190,682	\$ (1,400,497)
Support services	833,872	-	-	(833,872)
Capital Projects	14,689	-	-	(14,689)
School food service	147,167	64,619	73,419	(9,129)
Athletics	74,957	12,869	-	(62,088)
Interest on long-term debt	122,043	-	-	(122,043)
Other debt service	604	-	-	(604)
Total Governmental Activities	<u>\$ 2,840,279</u>	<u>\$ 133,256</u>	<u>\$ 264,101</u>	<u>(2,442,922)</u>
General Revenues:				
Taxes				
Property taxes, levied for general operation				198,718
Property taxes, levied for debt service				282,776
Other taxes				2,383
State school aid - unrestricted				1,873,489
Interest and investment earnings				23,810
Other				16,872
Transfers				<u>(8,257)</u>
Total general revenues and transfers				<u>2,389,791</u>
Change in Net Assets				(53,131)
Net Assets - Beginning				<u>1,132,309</u>
Net Assets - Ending				<u>\$ 1,079,178</u>

The accompanying notes to financial statements are an integral part of this statement.

CHASSELL TOWNSHIP SCHOOLS
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2005

	General	Debt Retirement Fund	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 372,788	\$ -	\$ 82,474	\$ 455,262
Investments	826,452	-	-	826,452
Taxes receivable	25,631	19,706	-	45,337
Accounts receivable	15,706	-	2,253	17,959
Inventory	-	-	5,482	5,482
Due from other governmental units	408,629	-	946	409,575
Due from other funds	3,783	-	1,266	5,049
Restricted cash	-	42,505	-	42,505
TOTAL ASSETS	\$ 1,652,989	\$ 62,211	\$ 92,421	\$ 1,807,621
LIABILITIES:				
Accounts payable	\$ 34,641	\$ -	\$ -	\$ 34,641
Accrued expenses	184,405	-	5,805	190,210
Due to other funds	1,266	668	3,115	5,049
Deferred revenue	6,277	-	1,349	7,626
TOTAL LIABILITIES	226,589	668	10,269	237,526
FUND BALANCES:				
Reserved	-	61,543	-	61,543
Unreserved	1,426,400	-	82,152	1,508,552
TOTAL FUND BALANCES	1,426,400	61,543	82,152	1,570,095
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,652,989	\$ 62,211	\$ 92,421	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,832,521
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(3,001,553)
Accrued interest is not included as a liability in governmental funds.	(321,885)
Net assets of governmental activities	<u>\$ 1,079,178</u>

The accompanying notes to financial statements are an integral part of this statement.

CHASSELL TOWNSHIP SCHOOLS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	General Fund	Debt Retirement Fund	Other Non-major Governmental Funds	Totals
REVENUES:				
Local sources	\$ 292,841	\$ 286,445	\$ 78,454	\$ 657,740
State sources	1,975,373	-	8,126	1,983,499
Federal sources	88,798	-	65,293	154,091
Total revenues	2,357,012	286,445	151,873	2,795,330
EXPENDITURES:				
Instruction	1,538,046	-	-	1,538,046
Supporting services	826,689	-	-	826,689
Debt service	-	157,226	-	157,226
Capital projects	-	-	14,689	14,689
School food service	-	-	154,343	154,343
Athletics	-	-	69,608	69,608
Total expenditures	2,364,735	157,226	238,640	2,760,601
Excess (deficiency) of revenue over expenditures	(7,723)	129,219	(86,767)	34,729
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)	(123,044)	-	123,044	-
Incoming transfers - other schools	9,337	-	-	9,337
Sale of fixed assets	75	-	-	75
Transfers to other districts	(17,594)	-	-	(17,594)
Bond payments	-	(135,000)	-	(135,000)
Total other financing sources (uses)	(131,226)	(135,000)	123,044	(143,182)
NET CHANGE IN FUND BALANCE	(138,949)	(5,781)	36,277	(108,453)
FUND BALANCES - BEGINNING OF YEAR	1,565,349	67,324	45,875	
FUND BALANCES - END OF YEAR	\$ 1,426,400	\$ 61,543	\$ 82,152	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation (116,313)

Accrued expenses are recorded in the statement of activities when incurred it is not reported in governmental funds until paid 36,635

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) (135,000)

Change in net assets of governmental activities \$ (53,131)

The accompanying notes to financial statements are an integral part of this statement.

CHASSELL TOWNSHIP SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Fiduciary Fund</u>
ASSETS:	
Cash and investments	\$ <u>43,735</u>
LIABILITIES:	
Due to student groups	\$ <u>43,735</u>

CHASSELL TOWNSHIP SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Chassell Township Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the more significant policies:

REPORTING ENTITY

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic—but not the only—criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility includes, but is not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the School is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of the potential component unit addressed in defining the government's reporting entity.

Excluded from the reporting entity:

Chassell Township Public Schools Foundation, Inc.

The potential component unit has a separately elected board and provides assistance with development, implementation, and/or maintenance of educational programs which significantly contribute to the education and personal growth of Chassell Township School students. The foundation is excluded from the reporting entity because the school does not have the ability to exercise influence or control over the operations, approve budgets, or provide funding.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported as general revenue.

CHASSELL TOWNSHIP SCHOOLS

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, & FINANCIAL STATEMENT PRESENTATION

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue are (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service, and Athletic Activities.

CHASSELL TOWNSHIP SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Projects Fund - The Capital Projects Fund is used to account for all revenues and expenditures associated with the School District's capital structures.

Debt Retirement Fund - The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Fund - The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds."

Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period in accordance with the National Council on Governmental Accounting Interpretation No. 3, Revenue Recognition - Property Taxes. Property taxes are levied by Chassell Township on December 1 and become due on February 14.

The 2004 non-homestead and homestead taxable valuation of the District amounted to \$11,117,039 and \$25,912,684, respectfully. Ad valorem taxes of \$200,107 were levied for operating purposes (18 mills) based on non-homestead taxable valuation and \$283,277 debt retirement (7.65 mills) based on homestead and non-homestead taxable valuation. These amounts are recorded as revenue on the District's records in and for the fiscal year ending June 30, 2005.

Inventory

Inventory in the School District's Special Revenue Fund consists of food, a la carte items, and USDA Commodities totaling \$5,482. The School District utilizes the consumption method of recording inventories of food supplies in the School Food Service Fund. Under the consumption method, inventories are recorded as expenditures when they are used. Inventory is valued at cost.

All other funds utilize the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

CHASSELL TOWNSHIP SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets

Fixed assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the district-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Accrued Benefits

The liabilities for accrued benefits reported in the district-wide statements in the amount of \$8,296, consisted of sick leave balances and retirement incentives.

Sick Leave - Substantially all District employees are allowed to accumulate sick days to a maximum of 160 days. Employees with over twenty-five years of employment are paid \$15 per day for accrued sick days upon retirement. At June 30, 2005, accumulated unpaid sick leave was \$5,296.

Retirement Incentive - The District's contract with the Copper Country Education Association includes a retirement incentive payment to retiring teachers when the number of years of service to the District and one's age total 80. The maximum benefit is \$5,000 and is reduced each year after eligibility by \$1,000 until zero is reached. As of June 30, 2005, there were two teachers who qualified for the early retirement incentive. The potential liability to the District at June 30, 2005 was \$3,000.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Comparative Data/Reclassifications

Comparative data is not included in the School District's financial statements.

CHASSELL TOWNSHIP SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUDGETARY DATA

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to July 1, the School District Superintendent submits to the Board of Education a proposed budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted at a regular meeting by Board of Education approval.
4. Any revisions to the budgeted amounts must be approved by the Board of Education.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with GAAP.
6. Budgeted amounts presented in the financial statements are as originally adopted, or as amended by the Board of Education.
7. Budget appropriations lapse at the end of the fiscal year.

ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The District does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

NOTE B - BUDGETING AND ACCOUNTING

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Description	Total Appropriation	Amount of Expenditures	Budget Variances
School Food Service	\$153,950	\$154,343	(\$393)

CHASSELL TOWNSHIP SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE C - CASH AND INVESTMENTS

CASH DEPOSITS

At year-end, the School District's deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the School District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 454,952	\$ 0	\$ 454,952
Petty cash	310	0	310
Total unrestricted	455,262	0	455,262
Restricted cash	42,505	43,735	86,240
Total cash and cash equivalents	497,767	43,735	541,502
Investments	826,452	0	826,452
Total deposits and investments	\$ 1,324,219	\$ 43,735	\$ 1,367,954

At June 30, 2005, the book value of the School District's demand deposits, consisting primarily of checking and savings accounts, certificates of deposit and other cash equivalents, was \$541,193 with a corresponding bank balance of \$573,441. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$279,240, representing approximately 48% of the District's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$279,240 was insured and \$294,201 was neither insured or collateralized.

INVESTMENTS

The investment of the School District's funds is governed by state statutes. In general, state statutes provide that the School District is authorized to invest its funds in certificates of deposit, savings accounts and deposit accounts in a bank which is a member of the Federal Deposit Insurance Corporation. In addition, it may also invest in bonds, securities and other obligations of the United States in which the principal and interest are fully guaranteed by the United States, and investments in commercial paper rated at prime at the time of purchase and which mature not more than 270 days after the date of purchase.

The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

1. Insured or registered, or securities held by the entity or its agent in the entity's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the entity's name.

At June 30, 2005, the District's investments consisted of mutual funds which are not categorized because they are not evidenced by securities that exist in physical or book entry form. The District had \$826,452 in mutual funds with Michigan School District Liquid Asset Fund Plus.

CHASSELL TOWNSHIP SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE D - FIXED ASSETS

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/04	Additions	Deletions	Balance 06/30/05
Land	\$ 60,002	\$ 0	\$ 0	\$ 60,002
Building and additions	3,200,989	0	0	3,200,989
Improvements other than building	417,775	0	0	417,775
Equipment and furniture	423,016	23,130	0	446,146
School buses	196,661	0	0	196,661
Subtotal	<u>4,298,443</u>	<u>23,130</u>	<u>0</u>	<u>4,321,573</u>
Accumulated depreciation:				
Building and additions	762,967	76,782	0	839,749
Improvements other than building	229,741	20,874	0	250,615
Equipment and furniture	203,764	30,906	0	234,670
School buses	153,136	10,882	0	164,018
	<u>1,349,608</u>	<u>139,444</u>	<u>0</u>	<u>1,489,052</u>
Net capital assets	<u>\$ 2,948,835</u>	<u>\$ (116,314)</u>	<u>\$ 0</u>	<u>\$ 2,832,521</u>

Depreciation expense was charged to governmental activities of the School District as follows:

Athletic	\$ 5,349
School Food Service	1,266
Instruction	117,738
Operations	4,209
Transportation	10,881
TOTAL	<u>\$ 139,443</u>

NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2005 are as follows:

Fund	Inter-fund Receivable	Fund	Inter-fund Payable
General	\$ 3,783	General	\$ 1,266
School Food Service	0	School Food Service	3,115
Athletic	1,266	Athletic	0
Debt Retirement	0	Debt Retirement	668
TOTAL	<u>\$ 5,049</u>	TOTAL	<u>\$ 5,049</u>
Fund	Transfer In	Fund	Transfer Out
General	\$ 0	General	\$ 123,044
Capital Projects	50,000	Capital Projects	0
School Food Service	16,305	School Food Service	0
Athletic	56,739	Athletic	0
TOTAL	<u>\$ 123,044</u>	TOTAL	<u>\$ 123,044</u>

CHASSELL TOWNSHIP SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE F - LONG TERM DEBT

2004 Advance Refunding

On February 9, 2004, the School District issued \$2,350,000 of unlimited tax general obligation bonds to advance refund \$2,255,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used to pay off the 1994 Advance Refunding Bonds dated January 12, 1994 and the 1995 School Building and Site Bonds dated March 1, 1995.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 2.00% to 4.25% per annum. Interest payments started on May 1, 2004, and are payable semi-annually on May 1 and November 1 as indicated. The bonds are to be both term and serial.

Bonds or portions of bonds maturing on or after May 1, 2015, shall be subject to redemption at the option of the School Board in multiples of \$5,000 in such order as the School District may determine, by lot within any maturity, on any date occurring on or after May 1, 2014, at par and accrued interest to the date fixed for redemption.

<u>Payable School Year</u>	<u>November 1 Interest</u>	<u>May 1 Interest</u>	<u>May 1 Principal</u>	<u>Total</u>
2005-2006	\$ 37,487	\$ 37,487	\$ 135,000	\$ 209,974
2006-2007	36,138	36,138	135,000	207,276
2007-2008	34,788	34,788	135,000	204,576
2008-2009	33,100	33,100	135,000	201,200
2009-2010	31,075	31,075	135,000	197,150
2010-2011	29,050	29,050	140,000	198,100
2011-2012	26,950	26,950	140,000	193,900
2012-2013	24,710	24,710	140,000	189,420
2013-2018	85,330	85,330	700,000	870,660
2018-2021	17,745	17,745	420,000	455,490
TOTAL	\$ 356,373	\$ 356,373	\$ 2,215,000	\$ 2,927,746

School Bond Loan Fund

During the year ended June 30, 2005, the School District did not borrow funds from the Michigan School Bond Loan Fund. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can loan the school district funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. At June 30, 2005, the balance due to the School Bond Loan Fund was \$1,093,894, including accrued interest of \$315,637.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the School District's 1995 bond issue. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds. The interest rate associated with loans from the school bond loan fund is established periodically by the State Administrative Board. The rate at June 30, 2005 was 3.125%.

CHASSELL TOWNSHIP SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE F - LONG-TERM DEBT (Continued)

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2005:

	Balance June 30, 2004	Increase	Decrease	Balance June 30, 2005	Current Portion
Bonds	\$ 2,350,000	\$ 0	\$ 135,000	\$ 2,215,000	\$ 135,000
School Bond Loan	778,257	0	0	778,257	0
	<u>3,128,257</u>	<u>0</u>	<u>135,000</u>	<u>2,993,257</u>	<u>\$ 135,000</u>
Accrued Interest	356,464	30,421	65,000	321,885	
Accrued Benefits	10,352	0	2,056	8,296	
TOTAL	<u>\$ 3,495,073</u>	<u>\$ 30,421</u>	<u>\$ 202,056</u>	<u>\$ 3,323,438</u>	

As of June 30, 2005, the aggregate maturities of long-term debt for the next five years are as follows:

Payable School Year	Interest	Principal	Total
2005-2006	\$ 74,974	\$ 135,000	\$ 209,974
2006-2007	72,276	135,000	207,276
2007-2008	69,576	135,000	204,576
2008-2009	66,200	135,000	201,200
2009-2010	62,150	135,000	197,150
2010-2011	58,100	140,000	198,100
2011-2012	53,900	140,000	193,900
2012-2013	49,420	140,000	189,420
2013-2018	170,660	700,000	870,660
2018-2021	391,954	1,198,257	1,590,211
TOTAL	<u>\$ 1,069,210</u>	<u>\$ 2,993,257</u>	<u>\$ 4,062,467</u>

NOTE G - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or at age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

CHASSELL TOWNSHIP SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE G - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 12.99% of covered compensation through September 30, 2004 and 14.87% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$230,404, which consisted of \$194,208 from the District and \$36,196 from employees electing the MIP option. These represent approximately 14.44% and 2.7% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2005 was approximately \$1,345,136. The District's total payroll was approximately \$1,357,328

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS and employers. The MPSERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2004 for the MPSERS as a whole, the actuarial accrued liability was \$44.8 billion. The pension plan net assets were \$36 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 80.36%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2005 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS' September 30, 2004 annual report.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

NOTE H - RESERVED FUND BALANCE

The Debt Retirement Fund has a reserved fund balance for the retirement of debt.

CHASSELL TOWNSHIP SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE I - FOUNDATION REVENUE

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and September of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 18 mills for non-homestead property taxes. State revenue recognized during the foundation period (currently the fiscal year) is as follows:

2004-05 Foundation	\$ 6,700.00
Less Local Support:	
Non-Homestead Tax Value	11,117,039
Multiplied by mills	0.018
Total Local Support	<u>200,107</u>
Divided by General Education K-12 membership	<u>309.48</u>
Calculated Local Support	<u>(646.59)</u>
2004-05 Foundation Grant Allowance Per Pupil	<u>\$ 6.053.41</u>

NOTE J - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 16 as follows:

Total current payments per R7120	\$ 123,658
Less State grants:	
School Breakfast	(3,398)
Less prior year accounts receivables:	
Title I	(15,206)
Title IIA	(5,555)
Plus:	
Title I accounts receivable	11,461
Title II accounts receivable	8,187
USDA Commodities	3,882
Drug Free Schools grant	225
Direct Federal grants	30,837
Total Federal Financial Assistance	<u>\$ 154,091</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2005 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

CHASSELL TOWNSHIP SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE K - CONTINGENT LIABILITIES

Risk Pool

Chassell Township Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Chassell Township Schools joined together with other school districts currently operating a common risk management and insurance program. Chassell Township Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Chassell Township Schools continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2005, which can be obtained through the School District

NOTE L - SUBSEQUENT EVENTS

On July 14, 2005, the School District purchased a 2003 GMC Blue Bird 71 passenger bus in the amount of \$38,300. This was purchased through the Capital Projects Fund.

NOTE M - RECLASSIFICATION

Certain items in the June 2004 financial statements have been reclassified to conform with the current year presentation.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

CHASSELL TOWNSHIP SCHOOLS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 281,500	\$ 296,275	\$ 292,841	\$ (3,434)
State sources	1,955,000	1,969,160	1,975,373	6,213
Federal sources	83,400	86,850	88,798	1,948
TOTAL REVENUE	2,319,900	2,352,285	2,357,012	4,727
EXPENDITURES:				
Instruction	1,575,605	1,562,985	1,538,046	24,939
Supporting services	856,485	864,245	826,689	37,556
TOTAL EXPENDITURES	2,432,090	2,427,230	2,364,735	62,495
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(112,190)	(74,945)	(7,723)	67,222
OTHER FINANCING SOURCES (USES):				
Incoming transfers - other schools	25,000	8,400	9,337	937
Sale of fixed asset	-	75	75	-
Operating transfers out	(161,500)	(134,395)	(123,044)	11,351
Other outgoing transfers	-	(20,700)	(17,594)	3,106
Total other financing sources (uses)	(136,500)	(146,620)	(131,226)	15,394
NET CHANGE IN FUND BALANCE	(248,690)	(221,565)	(138,949)	82,616
FUND BALANCE - BEGINNING OF YEAR	1,565,349	1,565,349	1,565,349	-
FUND BALANCE - END OF YEAR	\$ 1,316,659	\$ 1,343,784	\$ 1,426,400	\$ 82,616

SUPPLEMENTAL FINANCIAL INFORMATION

CHASSELL TOWNSHIP SCHOOLS
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2005
With Comparative Amounts for Year Ended June 30, 2004

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Taxes	\$ 198,718	\$ 166,336
Other local sources:		
Investment revenue	21,558	9,979
Miscellaneous	72,565	85,289
Total other local sources	94,123	95,268
Total local sources	292,841	261,604
State sources:		
Unrestricted grant - State Aid	1,873,489	1,893,126
Restricted grants:		
Driver's Education	-	3,114
Vocational Education	3,168	-
Service Learning Grant	3,813	-
Special Education	27,571	24,114
At-Risk	67,270	57,635
Other state revenue	62	200
Total restricted grants	101,884	85,063
Total state sources	1,975,373	1,978,189
Federal sources:		
Title I	39,245	45,661
Title V	2,790	4,626
Title II	14,749	13,573
Other federal sources	32,014	28,304
Total federal sources	88,798	92,164
TOTAL REVENUES	2,357,012	2,331,957
EXPENDITURES:		
Instruction:		
Basic program:		
Elementary School	509,630	497,042
High School	819,603	787,402
Total basic program	1,329,233	1,284,444
Added needs:		
Special Education	95,552	82,292
Compensatory education	41,129	39,094
At-Risk	72,132	66,574
Total added needs	208,813	187,960
Total instruction	1,538,046	1,472,404

CHASSELL TOWNSHIP SCHOOLS
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2005
With Comparative Amounts for Year Ended June 30, 2004

Supporting services:		
Pupil:		
Guidance	71,178	62,738
Instructional staff:		
Improvement of instruction	14,512	14,726
Library	21,154	20,446
Total instructional staff	35,666	35,172
General administration:		
Board of education	34,995	33,958
Executive administration	181,664	178,745
Total general administration	216,659	212,703
School administration - Principal	145,245	144,807
Business-fiscal services	62,902	63,608
Operation & maintenance	212,620	211,021
Pupil transportation	82,419	74,201
Total supporting services	826,689	804,250
TOTAL EXPENDITURES	2,364,735	2,276,654
EXCESS OF REVENUES OVER EXPENDITURES	(7,723)	55,303
OTHER FINANCING SOURCES (USES):		
Incoming transfers - other schools	9,337	8,842
Operating transfer out	(123,044)	(112,553)
Sale of fixed assets	75	-
Other outgoing transfers	(17,594)	(27,687)
TOTAL OTHER FINANCING SOURCES (USES)	(131,226)	(131,398)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(138,949)	(76,095)
FUND BALANCE, BEGINNING OF YEAR	1,565,349	1,641,444
FUND BALANCE, END OF YEAR	\$ 1,426,400	\$ 1,565,349

CHASSELL TOWNSHIP SCHOOLS
DEBT RETIREMENT FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2005
With Comparative Amounts for Year Ended June 30, 2004

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Current taxes	\$ 282,776	\$ 270,722
Interest income	1,286	1,034
Other taxes	2,383	2,056
TOTAL REVENUES	<u>286,445</u>	<u>273,812</u>
EXPENDITURES:		
Interest on bonds	156,622	127,862
Other expenses	604	95,038
TOTAL EXPENDITURES	<u>157,226</u>	<u>222,900</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	129,219	50,912
OTHER FINANCING SOURCES (USES):		
Redemption of bond principal	(135,000)	(2,390,000)
Refunding bond loan proceeds	-	2,350,000
TOTAL OTHER FINANCING SOURCES	<u>135,000</u>	<u>40,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>(5,781)</u>	<u>10,912</u>
FUND BALANCE, BEGINNING OF YEAR	<u>67,324</u>	<u>56,412</u>
FUND BALANCE, END OF YEAR	<u>\$ 61,543</u>	<u>\$ 67,324</u>

CHASSELL TOWNSHIP SCHOOLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
June 30, 2005

	Capital Projects	School Food Service	Athletic	Totals (Memorandum Only)	
				2005	2004
ASSETS AND OTHER DEBITS:					
Cash	\$ 82,152	\$ 60	\$ 262	\$ 82,474	\$ 46,028
Receivables	-	2,253	-	2,253	3,098
Inventory	-	5,482	-	5,482	4,737
Due from other funds	-	-	1,266	1,266	554
Due from other governmental units	-	946	-	946	963
TOTAL ASSETS	<u>\$ 82,152</u>	<u>\$ 8,741</u>	<u>\$ 1,528</u>	<u>\$ 92,421</u>	<u>\$ 55,380</u>
LIABILITIES:					
Accrued expenses	\$ -	\$ 4,277	\$ 1,528	\$ 5,805	\$ 5,769
Deferred revenue	-	1,349	-	1,349	2,270
Due to other funds	-	3,115	-	3,115	1,466
TOTAL LIABILITIES	<u>-</u>	<u>8,741</u>	<u>1,528</u>	<u>10,269</u>	<u>9,505</u>
FUND EQUITY:					
Fund balance - unreserved	<u>82,152</u>	<u>-</u>	<u>-</u>	<u>82,152</u>	<u>45,875</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 82,152</u>	<u>\$ 8,741</u>	<u>\$ 1,528</u>	<u>\$ 92,421</u>	<u>\$ 55,380</u>

CHASSELL TOWNSHIP SCHOOLS
CAPITAL PROJECTS FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2005
With Comparative Amounts for Year Ended June 30, 2004

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Interest	\$ 966	\$ 367
EXPENDITURES:		
Buildings and additions	14,689	8,265
TOTAL EXPENDITURES	<u>14,689</u>	<u>8,265</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,723)	(7,898)
OTHER FINANCING SOURCES (USES):		
Operating transfers in	<u>50,000</u>	<u>50,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	36,277	42,102
FUND BALANCE, BEGINNING OF YEAR	<u>45,875</u>	<u>3,773</u>
FUND BALANCE, END OF YEAR	<u>\$ 82,152</u>	<u>\$ 45,875</u>

CHASSELL TOWNSHIP SCHOOLS
SCHOOL FOOD SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2005
With Comparative Amounts for Year Ended June 30, 2004

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Adult lunches	\$ 2,483	\$ 3,796
A-La-Carte	13,330	12,791
Student lunches	33,535	39,242
Miscellaneous	15,271	13,208
Total local sources	<u>64,619</u>	<u>69,037</u>
State sources	<u>8,126</u>	<u>9,550</u>
Federal sources:		
School lunch program	61,411	60,805
USDA entitlements	3,066	3,293
USDA bonus entitlements	816	579
Total federal sources	<u>65,293</u>	<u>64,677</u>
TOTAL REVENUES	<u>138,038</u>	<u>143,264</u>
EXPENDITURES:		
Salaries	46,839	44,996
Employee benefits	10,797	9,236
Purchase services	956	2,631
Supplies, materials, and other	85,745	89,969
Capital outlay	10,006	-
TOTAL EXPENDITURES	<u>154,343</u>	<u>146,832</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(16,305)	(3,568)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	<u>16,305</u>	<u>3,568</u>
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

CHASSELL TOWNSHIP SCHOOLS
ATHLETIC FUND
STATEMENTS OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2005
With Comparative Amounts for Year Ended June 30, 2004

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Gate receipts	\$ 11,117	\$ 6,096
Other	1,752	1,640
TOTAL REVENUES	<u>12,869</u>	<u>7,736</u>
EXPENDITURES:		
Salaries	35,249	33,763
Employee benefits	7,886	7,019
Purchase services	17,876	16,344
Supplies, materials, and other	6,108	9,595
Capital outlay	2,489	-
TOTAL EXPENDITURES	<u>69,608</u>	<u>66,721</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(56,739)	(58,985)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	<u>56,739</u>	<u>58,985</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-	-
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

CHASSELL TOWNSHIP SCHOOLS
AGENCY FUND - SCHOOL ACTIVITIES
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2005

	Balance July 1, 2004	Receipts	Disbursements	Balance June 30, 2005
ASSETS:				
Cash	\$ 41,310	\$ 72,906	\$ 70,481	\$ 43,735
LIABILITIES:				
Due to Student Groups:				
Assembly	\$ 2,537	\$ 3,188	\$ 4,531	\$ 1,194
Class of 2004	978	4,000	4,978	0
Class of 2005	8,348	12,826	21,174	0
Class of 2006	5,887	5,960	781	11,066
Class of 2007	1,959	9,405	4,766	6,598
Class of 2008	688	2,814	1,319	2,183
Class of 2009	(200)	0	0	(200)
Class of 2010	1,102	0	1,102	0
Class of 2011	0	2,063	1,387	676
Yearbook	5,395	10,075	12,562	2,908
Elementary Fund	6,010	1,676	1,633	6,053
Elementary Playground	277	0	0	277
Homecoming	116	254	200	170
Student Council	454	260	136	578
Van Westenberg	6,000	4,000	4,000	6,000
Littlefield	106	0	0	106
SADD	130	0	0	130
Drama	341	0	40	301
Magazine Fund	4	5,501	5,501	4
National Honor Society	0	28	28	0
Quiz Bowl	641	560	906	295
Band Equipment	28	0	0	28
Band	458	750	722	486
Physics Field Trip	0	1,371	0	1,371
John Pepper Scholarship	0	250	250	0
Athletic Fund	51	7,925	4,465	3,511
TOTAL LIABILITIES	\$ 41,310	\$ 72,906	\$ 70,481	\$ 43,735



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LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Chassell Township Schools
Chassell, Michigan

In connection with our audit of the financial statements of Chassell Township Schools, as of and for the year ended June 30, 2005, the following concerns regarding the accounting records, procedures, and internal control structure came to our attention.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures and are not intended to reflect on the honesty or integrity of any individual.

Insured Deposits

We noted approximately forty-eight percent (48%) of the School's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend extending deposits to various financial institutions to decrease the risk of potential loss to the District.

Budget Over Expenditures

Comparing actual to budgeted expenditures shows that over expenditures have occurred. P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Over expenditures occurred in School Food Service Fund in the amount of \$393.

We recommend that revisions be made to the budget prior to the end of the fiscal year so that over expenditures do not occur in the future.

We would like to thank the administrative staff for the cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency, and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

July 27, 2005